

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
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R 071203Z MAR 78
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3206
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY OSLO
AMEMBASSY PARIS

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USOECD

USEEC

E.O. 11652: N/A
TAGS: EGEN, ETRD, SW
SUBJECT: VISIT TO SWEDISH STEEL MILLS

1. IN AN EFFORT TO OBTAIN A BETTER UNDERSTANDING OF SWEDEN'S
STEEL INDUSTRY, AMBASSADOR AND ECONOMIC COUNSELOR VISITED
THREE SPECIALTY STEEL MILLS AND ONE COMMERCIAL MILL,
FEBRUARY 27-28. THE SPECIALTY COMPANIES HAD LINKS TO THE US:
SKF STEEL AT HOFORS; SANDVIK AB AT SANDVIKEN; AND AVESTA AB
AT AVESTA (AXEL-JOHNSON GROUP). DOMNARVET, ONCE PART OF
STORA KOPPARBERG, NOW IN THE SWEDISH STEEL COMPANY (SVENSKT
STAL AB) IS AT BORLANGE. ALL LIE WITHIN A TWO-THREE HOUR
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DRIVE NORTH OF STOCKHOLM.

2. THE STEEL INDUSTRY SUFFERS IN SWEDEN AS IT DOES IN
OTHER INDUSTRIAL NATIONS FROM RELATIVELY LOW CAPACITY
OPERATION DUE TO WORLD MARKET CONDITIONS, AND IN SWEDEN'S
CASE, RAPID LABOR COST ESCALATION SINCE 1974 WHICH HAS
LED TO SOME LOSS OF MARKET SHARES. IN 1977 THE SO-

CALLED NABSETH REPORT WAS ADOPTED, LEADING TO THE FUSION OF THREE COMMERCIAL STEEL MILLS--DOMNARVET OF STORA KOPPARBERG, OXELOSUND OF GRANGES, AND NJA, THE SWEDISH STATE-OWNED MILL, INTO ONE COMPANY, HELD 25 PERCENT EACH BY THE FIRST TWO COMPANIES MENTIONED AND 50 PERCENT BY THE STATE COMPANY. A SECOND REPORT ON THE SPECIALTY STEEL INDUSTRY, THE HAGSTROM REPORT, IS STILL UNDER CONSIDERATION BUT PORTIONS OF ITS RECOMMENDATIONS FOR MORE RATIONALIZATION AMONG SWEDEN'S 20 ODD SPECIALTY STEEL COMPANIES ARE PROBABLY TO BE IMPLEMENTED--ON MARCH 3, SKF STEEL, FAGERSTA, AND UDDEHOLM ANNOUNCED THEY WERE PLANNING TO FORM A SINGLE COMPANY. (SEE SEPTTEL.)

3. SPECIALTY STEEL. THE THREE COMPANIES ARE NOT HEAVILY AFFECTED BY US SPECIALTY STEEL QUOTAS, THOUGH SANDVIK OFFICIALS SAID THEIR STAINLESS STEEL PLATE MARKET MIGHT BE CONSIDERABLY LARGER HAD QUOTAS NOT BEEN IMPOSED. MOST EXPORTS TO US ARE IN SPECIALTY STEEL PRODUCTS WHICH ARE NEITHER UNDER QUOTA NOR YET UNDER THE TPM SYSTEM. THE LATTER, SCARCELY INSTALLED, AND WITH CONTINUING CONFUSION ON HOW TO ANSWER THE QUESTIONS ON THE SSSI, CAME IN FOR GOOD-NATURED COMPLAINING. THE NORMAL HIGH PRICE OF SWEDEN'S TAILORED PRODUCTS IN THIS AREA WILL PROBABLY PRECLUDE ANY "FAST-TRACK" ACTIONS, THOUGHT THE COMPANY OFFICIALS.

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4. ALL SEEMED RELATIVELY SATISFIED WITH THE EC-EFTA STEEL AGREEMENT (NOT YET FORMALLY SIGNED) IN THAT IT CONTAINS NO QUANTITATIVE RESTRICTIONS AND ALLOWS A THREE PERCENT MARGIN BELOW EC BASE PRICES FOR COMPETITIVE ACTION--THOUGH, AGAIN, SWEDEN'S HIGH-PRICED STEEL PRODUCTS SEEM LIKELY TO REMAIN BEYOND REACH OF DUMPING ACTIONS. ALL COMPANIES SHOWED SOME DISGUST FOR EC BUREAUCRATIC ACTIONS WHERE MINOR PAPERWORK IRREGULARITIES HAVE RECENTLY HELD UP SHIPMENTS AT THE EC FRONTIER. (ONE OFFICIAL SAID HIS COMPANY WOULD HAVE TO FIND WAYS OF HIDING AQUAVIT IN STAINLESS STEEL TUBE SHIPMENTS TO EXPEDITE BORDER CROSSING INTO THE EC.) BRITISH IRON AND STEEL (BIS), STATE-OWNED, WAS CRITICIZED AS A COMPETITOR FOR ITS UNCERTAIN COSTING AND PRICING POLICIES.

5. ONE COMPANY PRESIDENT CITED A VERY RECENT AND DISTURBING DEVELOPMENT. A MAJOR US COMPANY, AND LONG-TIME CLIENT, HAD WRITTEN THAT BECAUSE THE SWEDISH COMPANY WAS FOREIGN AND REPATRIATED EARNINGS, THEIR RELATIONSHIP WAS BEING TERMINATED IN FAVOR OF A US SUPPLIER. YET THE SWEDISH COMPANY HAS MANY US FACTORIES, AND IN FACT US EMPLOYEES PRODUCED THE PRODUCTS IN

QUESTION. WAS THE US BUYER ENGAGING IN A KIND OF "BOY-COTT," ASKED THE OFFICIAL.

6. THERE SEEMED GENERAL AGREEMENT THAT CODETERMINATION (THE SO-CALLED MBL LAW BY WHICH THE LABOR UNIONS SHARE MANY MANAGEMENT DECISIONS) IS A BURDEN. MUCH REMAINS TO BE DEFINED--THERE IS NO MASTER MBL AGREEMENT YET BETWEEN EMPLOYEES AND THE UNIONS, AND WHEN IT IS FINALLY AGREED TO, INDUSTRY AND COMPANY REFINEMENTS WILL BE NEEDED. "TIME CONSUMING," "COSTLY," REDUCING THE COMPANIES' FLEXIBILITY OF OPERATIONS AND MEETING SHIFTING MARKET CONDITIONS ABROAD, "THEATRICALS" FOR THE RANK AND FILE, ETC., PERMEATED THE OFFICIALS' COMMENTS. ON THE OTHER HAND, THE ANTICIPATED LO-SAF WAGE SETTLEMENT LIMITED OFFICIAL USE

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MENT FOR THIS YEAR WHICH MIGHT ADD NO MORE THAN TEN PERCENT TO LABOR COSTS SEEMED ACCEPTABLE. (THE THIRD BREAKOFF OF THESE NEGOTIATIONS ON MARCH 4 HAD NOT YET OCCURRED.)

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7. OF THE THREE COMPANIES, SKF STEEL HAS HAD THE WORST OF IT. SANDVIK REMAINS PROFITABLE. IN ALL INSTANCES INVENTORIES WERE TOO HIGH, OPERATING LEVELS TOO LOW (65-85 PERCENT, DEPENDING ON PRODUCT) AND WORLD OUT-LOOK UNCERTAIN FOR UNQUALIFIED OPTIMISM. HOWEVER, ONE WAS STRUCK BY SEVERAL FAVORABLE FEATURES. MANAGEMENT SEEMED COMPETENT, DETERMINED. EACH COMPANY HAD INVESTED IN RECENT YEARS IN NEW AND INNOVATIVE PLANT AND EQUIPMENT FOR AT LEAST A PART OF ITS PRODUCT LINES SUCH AS: HOFORS' LATEST ELECTRIC FURNACE, AVESTA'S COLD-ROLLED STAINLESS STRIP MILL, AND SANDVIK'S LATEST CEMENTED CARBIDE AND WELDING PRODUCTS. RESEARCH WAS EMPHASIZED IN LIMITED OFFICIAL USE

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IMPROVED PRODUCTS AND IN NEW MARKETING PACKAGES. FEATURED TOO WERE EXPANDED SERVICES FOR CUSTOMERS. FOR EXAMPLE, SKF STEEL IS STUDYING A LARGER ROLE FOR ITSELF IN REPLACING STAINLESS STEEL BROKERS IN CERTAIN KINDS OF CONSTRUCTION AND SHIPBUILDING PROJECTS. THE SAME COMPANY IS EXPERIMENTING WITH PLASMA HEAT AS A MEANS OF REDUCING COSTS IN STEEL MILL FURNACES, AND IS SUBMITTING A REQUEST TO THE EMBASSY FOR POSSIBLE ASSISTANCE FROM DEPARTMENT OF ENERGY. IN SHORT, THE QUALITIES WHICH MADE SWEDISH SPECIALTY STEEL MANAGEMENT SUCCESSFUL IN THE PAST ARE STILL VERY MUCH IN EVIDENCE.

8. COMMERCIAL STEEL. DOMNARVET, COMMERCIAL STEEL PRODUCER, WITH 5,650 EMPLOYEES, PRESENTED A GREAT CONTRAST. SWEDISH STEEL INC. IS STILL REORGANIZING, WITH A DEADLINE OF MARCH 31. 3,000-4,000 EMPLOYEES OF 17,500 MAY BE LAID OFF IN FIVE YEARS. FINAL DECISIONS ON WHICH PRODUCT LINES WILL BE PRODUCED IN EACH OF THE THREE MILLS SHOULD BE MADE SOON, E.G., BEAMS AND BARS AT LULEA (NSA), HEAVY PLATE AT OXELOSUND, SHEET AT DOMNARVET? MOREOVER, THE METALLURGY DIVISION AT DOMNARVET WITH 1,200 EMPLOYEES MAY BE SHUT DOWN OR SHIFTED. THE COMPANY IS RELYING ON GOS ASSISTANCE: A) 700 MILLION SKR IN SHARE CAPITAL, TO MATCH THE 700 MILLION IN ASSETS EACH WHICH GRANGES AND STORA KOPPARBERG CONTRIBUTED TO THE COMPANY; B) A POTENTIAL 3.1 BILLION KRONOR IN LOANS; C) CONTRIBUTION OF SUCH PROGRAMS AS 25 KRONOR HOURLY FOR TRAINING EMPLOYEES WHO ARE NOT LAID OFF. INVENTORIES DOWN, HAPPILY, FROM SUPER-LEVELS A YEAR AGO ARE STILL ABOVE

NORMAL.

9. DOMNARVET WAS A SHARP INSTANCE NOT ONLY OF GOS
SUPPORT TO A DISTRESSED INDUSTRY BUT ALSO THE DILEMMA
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OF REGIONALIZATION. LAYOFFS ARE NEEDED, BUT FEW
EMPLOYEES WANT TO LEAVE BORLANGE. AT THE SAME TIME,
DEPARTURES WILL DEPRESS LOCAL BUSINESSES
DEPENDENT ON DOMNARVET PAYROLLS. AN OFFSET TO THE LATTER
PHENOMENA IS THE 1978-80 MOVE OF TWO GOS AGENCIES FROM
THE STOCKHOLM AREA--ROAD SAFETY AND RAIL MAINTENANCE--
TO BORLANGE--IF THE EMPLOYEES WILL QUIT STOCKHOLM.

10. ONE ENCOUNTERED US TECHNOLOGY OCCASIONALLY, BEING
USED UNDER LICENSE SUCH AS US STEEL'S PROCESS FOR
PLASTIC COATING STEEL SHEETS. NEGOTIATIONS ARE UNDER-
WAY BETWEEN BETHLEHEM STEEL AND DOMNARVET FOR A ZINC-
ALUMINUM COATING PROCESS.

11. ONE WAS STRUCK BY THE HIGH PERCENTAGE OF WOMEN AS
OVERHEAD CRANE OPERATORS AND COMPUTER-CONTROLLED PROCESS
OPERATORS. ONLY TEN PERCENT OF THE COMPANIES' BLUE
COLLAR EMPLOYEES WERE WOMEN, HOWEVER.

12. COMMENT: THOUGH ONLY A FRACTION OF SWEDEN'S STEEL
INDUSTRY PLANTS WAS VISITED, THE OVERALL IMPRESSION WAS
ONE OF VIGOROUS EFFORT TO DEAL WITH THE DIFFICULT LONG-
RUN NEED TO RESTRUCTURE AND FIND THOSE "NICHES"
FOR THE SMALL BUT TECHNOLOGICALLY TALENTED COMPANIES.
BURDENED, SO TO SPEAK, WITH ADVANCED WELFARE CONCEPTS
AND THE BELIEF ON THE PART OF THE SWEDISH NATION THAT
UNEMPLOYMENT IS "IMMORAL," COMPANIES' MANAGEMENT AND
THE GOS ITSELF ARE SLOWED IN THEIR REACTION
TIME THROUGH THE NEED TO PERSUADE THE TRADE UNIONS AND
OTHERS OF THEIR PROPOSED PRESCRIPTIONS FOR BETTER
HEALTH. ON THE OTHER HAND, IN ACCORDANCE WITH SWEDISH
INDUSTRIAL TRADITION AND THE RELATIVE SMALLNESS OF THE
BUSINESS COMMUNITY INVOLVED, REACTION TIME FOR TECH-
NOLOGICAL ADJUSTMENTS IS PROBABLY FAVORABLE. ABOVE ALL,
AS MOST OF THE PRODUCTION OF THE SPECIALTY STEEL
COMPANIES (UP TO 80-90 PERCENT IN SOME CASES) IS EXPORTED,
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EVENTS ON THE INTERNATIONAL STAGE WILL BE CRUCIAL, AND
THERE, THE SWEDES CAN HAVE LITTLE INFLUENCE.

KENNEDY-MINOTT

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